

Message Text

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H-03 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 AGR-20 DODE-00 PA-04 USIA-15

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TO SECSTATE WASHDC 1492

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UNCLAS SECTION 1 OF 2 STOCKHOLM 831

E.O. 11652 N/A

TAGS: ENRG, SW, ECON, EFIN

SUBJECT: SOCIAL DEMOCRATS AND OPPOSITION AGREE TO REDUCE VALUE-
ADDED TAX 3 PERCENTAGE POINTS

REF: (A) STOCKHOLM 428

(B) STOCKHOLM 742

(C) STOCKHOLM 795

(D) STATE 00295

SUMMARY. RIKSDAG FINANCE COMMITTEE GAVE FORMAL APPROVAL FEBRUARY
26 TO AGREEMENT REACHED PREVIOUS EVENING BY SOCIAL DEMOCRATIC AND
MIDDLE PARTY NEGOTIATORS FOR REDUCTION OF VALUE-ADDED TAX (MOMS)
BY 3 PERCENTAGE UNITS FOR PERIOD APRIL 1 THROUGH SEPTEMBER 15.

COMMITTEE ALSO APPROVED SELECTIVE MEASURES PROPOSED BY GOVERNMENT
JANUARY 30 FOR STIMULATING ECONOMY. EARLY REACTION STRONGLY HELD
THAT MOMS REDUCTION WAS TOO SMALL AND TOO BRIEF TO HAVE MUCH

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STIMULATIVE IMPACT, BUT GOVERNMENT'S NATIONAL ECONOMIC RESEARCH

INSTITUTE ESTIMATES MOMS REDUCTION WILL RAISE 1974 GDP GROWTH RATE BY 0.3 PERCENTAGE POINTS AND SELECTIVE MEASURES WILL RAISE IT BY ADDITIONAL 0.78 PERCENTAGE POINTS, BRINGING GDP GROWTH CLOSE TO 4.0 PERCENT THIS YEAR. END SUMMARY.

1. AFTER MORE THAN A WEEK OF POLITICAL HORSETRADING OVER ISSUE OF MOMS REDUCTION, RIKSDAG FINANCE COMMITTEE, REFLECTING AGREEMENT REACHED PREVIOUS EVENING BETWEEN SOCIAL DEMOCRATIC AND MIDDLE (CENTER AND LIBERAL) PARTIES, GAVE FORMAL APPROVAL FEBRUARY 26 TO A REDUCTION OF MOMS BY 3 PERCENTAGE UNITS FOR PERIOD APRIL 1 THROUGH SEPTEMBER 15. (MODERATE PARTY WAS NOT INCLUDED IN NEGOTIATIONS BECAUSE IT HAD HELD OUT FOR 5 PERCENT REDUCTION WITHOUT TIME LIMIT.) RATE WILL NOW DROP FROM 15 TO 12 PERCENT OF VALUE OF GOODS PLUS TAX (17.65 TO 14.65 PERCENT TAX ON GOODS ALONE). REFLECTING ACCEPTANCE BY NEGOTIATORS, COMMITTEE ALSO APPROVED WITHOUT CHANGE SELECTIVE MEASURES PROPOSED BY GOVERNMENT JANUARY 30 FOR STIMULATING ECONOMY (REF A).

2. SOCIAL DEMOCRATES GAVE IMPORTANT GROUND IN BATTLE: THEY HAD RESISTED MOMS REDUCTION FOR MANY YEARS, ALMOST AS ARTICLE OF FAITH AND CONCESSIONS THEY HAVE MADE CAN BE EASILY REGARDED AS PSYCHOLOGICAL DEFEAT. IN PRESS CONFERENCE AFTER AGREEMENT WAS ANNOUNCED AMONG NEGOTIATORS, SVEN EKSTROM, SOCIAL-DEMOCRATIC VICE CHAIRMAN OF FINANCE COMMITTEE AND ONE OF THE THREE NEGOTIATORS, REPORTEDLY MADE EFFORT TO PUT BEST POLITICAL FACE ON COMPROMISE. "WE HAVE STRESSED URGENCY OF NEGOTIATION RATHER THAN STRIFE, WHICH COULD HAVE DELAYED IMPLEMENTATION OF THE STIMULATIVE PACKAGE BY THREE OR FOUR MONTHS", HE SAID, REFERRING TO DANGER THAT ISSUE COULD HAVE FORCED A NEW ELECTION.

3. EARLY REACTION GENERALLY HELD THAT AMOUNT OF REDUCTION AND PERIOD IN EFFECT WERE TOO SMALL TO HAVE MUCH STIMULATIVE IMPACT. DAGENS NYHETER QUOTED PER SCHIERBECK, HEAD OF NATIONAL MERCHANTS' ASSOCIATION, AS CHARACTERIZING 3 PERCENT AS "QUITE INADEQUATE". IN VIEW OF FACT THAT PRICES WILL BE RISING ANYWAY DURING 5 1/2 MONTH PERIOD, HE SAID, SMALL TAX CUT WILL PROBABLY NOT SHOW UP IN LOWER PRICES AT RETAIL LEVEL BUT MERELY DAMPEN PRICE INCREASES. MERCHANTS' ASSOCIATION HAD EARLIER PROPOSED ONE-YEAR REDUCTION IN MOMS. NEVERTHELESS, SCHIERBECK APPROVED OVERALL DECISION TO

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PLACE SKR 4 BILLION AT DISPOSAL OF DOMESTIC SWEDISH MARKET. SVENSKA DAGBLADET (MODERATE) EDITORIAL JANUARY 26 REGARDED IT A PITY THAT SMALL CUT IN MOMS WOULD NOT PERMIT ADEQUATE AND LONG-WANTED TEST OF MOMS AS STIMULATIVE INSTRUMENT. IT WOULD NOT BE SURPRISING, EDITORIAL ADDED, IF SOCIAL DEMOCRATS HOPED THAT MODERATE REDUCTION OF MOMS WOULD DISCREDIT THIS INSTRUMENT.

4. ECONOMISTS FOR SCANDINAVISKA ENSKILDA BANKEN AND CONFEDERATION OF INDUSTRIES, WITH WHOM EMBOFF DISCUSSED DEVELOPMENTS, SHARED VIEW THAT MOMS REDUCTION WAS TOO SMALL TO BE SINGIFICANT STIMULATIVE FACTOR. BOTH BELIEVED TOTAL PACKAGE MIGHT PUSH UP 1974 GROWTH RATE BY AT MOST ONE PERCENT OVER EARLIER, PROBABLY OPTIMISTIC, ESTIMATE OF 2.9 PERCENT MADE BY NATIONAL ECONOMIC RESEARCH INSTITUTE. CONFEDERATION ECONOMIST SAID HIS GROUP COULD EASILY HAVE SUPPORTED MOMS DECREASE BY MORE THAN FIVE PERCECTAGE UNITS OVER PERIOD OF A YEAR. BOTH ECONOMISTS BELIEVED NEED FOR STIMULATION IS GREATER THAN COMBINED PACKAGE WILL PROVIDE; ECONOMY IS NOW FACING REDUCTION IN OVERALL SPENDING DUE TO HIGHER COSTS AND IS ENTERING UPON REGULAR DOWNTURN OF BUSINESS SYCLE. SCANDINAVISKA ENSKILDA BANKER POINTED TO GOVERNMENT'S OWN CALCULATION THAT SWEDEN'S INCREASED BILL FOR IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS ALONE WILL AMOUNT TO SKR 5-6 BILLION MORE THIS YEAR THAN LAST AND TO SHARPLY RISING WHOLESALE PRICES ACROSS THE SCALE OF GOODS. HE SAW COMPROMISE PACKAGE AS POSSIBLY A GAIN FOR SOCIAL DEMOCRATIC GOVERNMENT, REASONING THAT THEY HAD MANAGED TO PERSUADE OPPOSITION TO DROP DEMANDS TO INCLUDE JUMBLE OF OTHER MEASURES IN STIMULATIVE PACKAGE AT COST OF ONLY SMALL BRIEF REDUCTION IN MOMS. OLSEN

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5. SOURCE IN GOVERNMENT'S NATIONAL ECONOMIC RESEARCH INSTITUTE RAN THROUGH FOR EMBOFF OFFICIAL EXPECTATIONS OF ECONOMIC EFFECTS OF TOTAL STIMULATIVE PACKAGE. INSTITUTE ASSUMES MARGINAL PROPENSITY TO CONSUME OF 80 PERCENT, MARGINAL PROPENSITY TO IMPORT OF 35 PERCENT, AND END TO RESTRICTIONS IN OIL SUPPLIES EARLY IN 1974. MOMS REDUCTION WILL GIVE NET ADDITION OF ABOUT SKR 1,050 MILLION TO HOUSEHOLD DISPOSABLE INCOME, OF WHICH ABOUT SKR 350 MILLION WILL BE SPENT ON IMPORTS. MOMS REDUCTION WILL THEREFORE ADD ABOUT SKR 700 MILLION TO DGP, AN AMOUNT EQUAL TO A GDP INCREASE OF ABOUT 0.3 PERCENT. INSTITUTE HAS FIGURED THAT ORIGINAL SELECTIVE MEASURES WILL RESULT IN GDP INCREASE OF 0.78 PERCENT. TOTAL STIMULATIVE PACKAGE AS NOW APPROVED BY FINANCE COMMITTEE WILL THEREFORE INCREASE GDP BY ABOUT 1.0 PERCENT, RAISING EXPECTED GDP GROWTH RATE FOR 1974 TO ABOUT 3.9 PERCENT. GOVERNMENT EXPECTS CONSUMERS TO ABSTAIN FROM SOME BUYING JUST UNCLASSIFIED

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BEFORE APRIL 1, TO ENJOY SMALL SPENDING SPREE IMMEDIATELY THEREAFTER AND AGAIN JUST BEFORE SEPTEMBER 15. INSTITUTE SOURCE UNDERLINED THAT GOVERNMENT ESTIMATES ARE HIGHLY CONDITIONAL, THAT SWEDEN HAS HAD NO PREVIOUS EXPERIENCE UNDER COMPARABLE CIRCUMSTANCES ON WHICH TO JUDGE CONSUMER RESPONSE TO MOMS DECREASE, AND THAT SWEDISH ECONOMIC PERFORMANCE DEPENDS HEAVILY ON INTERNATIONAL DEVELOPMENTS.

6. COMMENT. MOMS BATTLE WAS FOUGHT ON POLITICAL, NOT ECONOMIC, GROUNDS. ECONOMIC ARGUMENTS SEEM HARDLY TO HAVE BEEN CONSIDERED ONCE GOVERNMENT'S PACKAGE REACHED FINANCE COMMITTEE, AND MOMS ISSUE WAS DECIDED ON BASIS OF POLITICAL STRENGTH. EMBASSY SHARES GENERAL VIEW THAT MOMS REDUCTION IN ITSELF IS UNLIKELY TO HAVE MUCH IMPACT UPON CONSUMER BEHAVIOUR, WHICH IN SWEDEN MAY BE MORE SENSITIVE TO EXPECTATIONS ABOUT THE FUTURE THAN TO TINY WINDFALL GAINS. IF SO, THIS PACKAGE COULD HAVE LESS EFFECT ON SLUGGISH DOMESTIC DEMAND THAN GOVERNMENT MIGHT HOPE FOR.
OLSEN

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